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FOOTWEAR INDUSTRY IN ITALY: A CASE STUDY OF GEOX
INTERNAZIONALIZATION TO PORTUGAL

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ABSTRACT

The purpose of this case study is to analyse the footwear industry, focusing on Geox S.p.A., one of the main enterprise of the global footwear market, leader of the “brown shoes” category in Italy, and its relative international expansion in Portugal. Specifically, two questions would be answered: (1) “Why the franchising model?” (2) “Why going to Portugal?”. But before that, the main company’s resources and activities would be analysed in order to understand the firm’s competitive advantage and successively analyse its sustainability using the VRIO methodology. At this level, technology & innovation was found to be the main driver of the firm’s competitive advantage as well as key driver for the firms’ competitive advantage’s sustainability. In order to better answer the two questions mentioned before the international business model of the company needed to be investigated both at the manufacturing and distribution level, with a consequent focus on the company’s presence in Portugal and the factors of success in the Portuguese market in order to better state the second query and then, to give the right recommendations.

Keywords: Footwear industry; franchise; GEOX; competitive analysis; International Expansion; Portugal;

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EXECUTIVE SUMMARY

The purpose of this case study is to have an outlook of the footwear industry, first at a worldwide level in order to understand the major players on the market and then at a European level, with a specific and deeper look to Italy and Portugal. Understanding the current and future features of the market is fundamental in order to better realize the main driver of the footwear industry and consequently of the competitive advantage of the enterprise that was selected for this case study. Geox S.p.A is an extraordinary example of successful Italian firm worldwide in the footwear and apparel industry. Born thanks to the innovative idea of Mr Mario Moretti Polegato, the company had space to growth not only thanks to the technological knowledge coming from the Montebelluna district (where the administrative side of the company is based) but also to the strong internal management strategies was able to develop along the years. The company's competitive advantage was analysed using the resource based view and capabilities of the firm and then its sustainability was assessed to understand the company's coherence within the current footwear market and market forecasts. The combination of offering a unique and technology innovative product (the shoe that breathes) to a wide customer base at an affordable price (thanks to lower production costs) was the major key success factor that made the company able to enter in a competitive market as footwear is and achieve and maintain a relevant position among the other footwear players.

The successively look at the international business model of the company and how the company built it, was the stepping stone for analysing the company in the Portuguese context, how is performing, and perceived by consumers in Portugal thus, what are the main drivers of success in the market and lastly which are the next moves of the company in Portugal. The final objective of this analysis is to answer two main questions: (1) "Why the franchising model?" (2) "Why going to Portugal?" and, giving some final recommendations to the firm.

INTRODUCTION

The footwear is a highly competitive and technology driven industry, where only those able to innovate continuously themselves can be successful. Therefore, one of the major footwear companies known for having paid so close attention to innovation and for being totally technologically oriented is Geox S.p.A. Indeed, the company activity is based on several technology patents¹ allowing the development of innovative products from “Breathability” (or “Respira”) that have made the company famous and unique worldwide, to water proof (Amphibiox), light weights, eco-friendly materials (TUV certification) or side transpiration, together with a very high level of comfort. In this sense, Geox has rejuvenated the footwear industry starting challenging the historical perception of holes in shoes - the first step of the Geox revolution and was able, afterward, to become very successful and leader of some markets against its main global competitors such as Timberland, Clarks’ and ECCO. The major achievement of the company was the ability to combine the offer of a unique and innovative product to a wide range of consumers at an affordable price.

Thus, In the following pages will be analysed the footwear industry and the drivers in terms of resource and capabilities that have made Geox successful and able to gain a sustainable competitive advantage worldwide. With the analysis of the company international strategies, with a focus on the Portuguese expansion, the conclusion aims to answer two questions: (1) “Why the franchising model?” (2) “Why going to Portugal?”. From those questions and all the analysis that was done, some recommendations would be given regarding the effective need for the company to rely on a master franchisee, in Portugal, now; and about the opening of a flagship store, that, would likely be the next and final move of the company in the country in terms of distribution and market penetration strategy.

¹ The main patents cover the technology that allows to produce a waterproof rubber outsole and breathable at the same time.

INDUSTRY ANALYSIS: SHOE CLUSTER

I. WORLDWIDE IMPORTS, EXPORTS AND PRODUCTION OUTLOOK. FOCUS ON ITALY AND PORTUGAL

The worldwide footwear market value in 2015 stated around 340.000 US\$ million and it is expected to grow up to 400.000 US\$ by 2020 (Euromonitor International , 2015). The most valuable countries in terms of retail selling price² for the footwear industry are USA, China, Russia, United Kingdom, Brazil, Mexico, India, Japan and Germany. The Top 5 brands are Nike, Adidas, Sketchers, New Balance and Clarks. *Exhibit 1.*

Having a deeper look at the European continent, the footwear industry valued \$89,8 billion in 2014 and showed a 2,6% compound annual growth rate between 2010 and 2014. The market projections from 2014 to 2019 will see the compound annual growth rate being a little less 2,5% where apparently only countries like the UK and Germany seem will have the highest growth rates, respectively of 0,9% and 1,4% (MarketLine, 2015). This is happening because the footwear industry in Europe is undergoing a major change.

Economic recession has led European consumers to spend less deliberately in footwear and consequently is really important for exporters not only responding to these new opportunities being aware of the social and political awareness of them but as well having in mind that price competitiveness is not enough to gain a place in the European market without an adequate technological development (from Internet sales to 3D printing). Some countries like UK and Germany understood these consumers' need and consequently are getting more and more 'low cost oriented, developing a fast fashion focus. *Exhibit 2.*

During the period 2010 – 2014, European imports of footwear increased steadily and reached the €40,8 billion, which is 29% higher than in 2010 (CBI, 2015) with Germany showing the best growth. Between 2013 and 2014, European countries showed a CAGR per footwear imports of 11% with Italy being the leading country in terms of euro million exports but

² The maximum price at which the excisable goods in packaged form may be sold to the ultimate consumer.

behind Germany, Belgium and Netherlands' annual growth rate. *Exhibit 3*. Even though China is facing many difficulties in terms of market share (as it decreased from 23% in 2013 to 20% in 2014) among the non-EU countries is still the leading exporter to the EU countries. Bangladesh, Cambodia, India and Vietnam but also Indonesia are getting closer offering better cost prices and this is fostering China's struggling with the rising wages and material costs. *Exhibit 4*. The major footwear exports' destinations are mostly represented by United States, Switzerland, Russia, and Hong Kong, and those continue to rise especially of the leather uppers that accounted for the 60% of total exports. *Exhibit 5*. Imports in terms of group of products led as well to some important considerations: footwear' imports with textile uppers is increasing strongly (16% between 2013-2014) and this is the result of the increasing popularity for sportswear in Europe *Exhibit 6*. Differently from the non-EU countries like China and the "new-lands" of Vietnam, India and Indonesia, the footwear production in Europe focuses on offering the best products providing the better design, quality materials, comfort and innovations and in 2014 has registered €17,4 billion production value at least 3 billion more than in 2010. *Exhibit 7*.

The Italian footwear market generates half of the total European footwear market (almost the 50% of the European market, followed by Portugal and Spain with respectively 12% and 13%) and it is the only EU country characterized by having the highest average export prices in the worldwide footwear market (2014's average price of the Italian footwear was 36.73 euros with Hong Kong China being the most important markets for Italy representing the highest export prices respectively €113.37 and €106.94 (APICAPPS, 2014). *Exhibit 8*

In a situation of economic uncertainty and the persistent Italian recession, it is not a surprise if the data till the 2014 weren't good (-0,8% CAGR, *Exhibit 9*). Italian consumers try to economize postponing as much as they can the purchase of footwear. They started buying a narrowed range of footwear consequently fostering lower-priced distribution channels like

supermarkets, hypermarket and discounters' category and department stores (counting respectively the 5,6% and 5,2% of the market; *Exhibit 10*) and consequently the private label presence in the market (4% value sales in 2015 (Euromonitor International, 2016)).

In such European situation of uncertainty, the Portuguese market seems the only one reacting; probably thanks to the APPICAPS (footwear Portuguese association) helping within the exports. In 2015 the Portuguese footwear records a 2% growth in value sales reaching €1.2 billion. The country, during the 90s and the new millennium, faced fierce competition by the “cheap labour” countries like China and the East Europe. But, over the last two years started investing a lot on this market and new entrepreneurs and designers took advantage of high production know-how of the northern part of the country and invested in high quality production. These set of choices brought Portugal to be one of the major footwear producer in Europe and second country with the highest average export price in 2014.

It has also to be said that as well as Italy, there are many constraints from the consumer's financial side. Indeed, the purchasing mentality of the consumers may have led to a shift in the purchasing behaviour fostering as well distributors categories selling at lower prices compare to footwear specialists. *Thus, it is not a surprise if fast fashion* retailers are getting more and more influential over the consumers with Zara, H&M and Primark continuously expanding their footwear portfolio in attempts to offer a more comprehensive product portfolio that goes beyond clothing. Their success depends to consumers' desire for trend-driven and cheap footwear that make their “quick turnaround” a winning strategy. *Exhibit 11*. In Europe their influence over the footwear specialists is more prominent compared to Italy. *Exhibit 12*. Also private labels (like George and Tesco) have to be added to the fast fashion retailers as an evolving category in Europe competing by improving the design and the fashion-appeal of the footwear lines. In terms of sales those are the predominant category in the western part of Europe. *Exhibit 13*.

Summing up, today's footwear market, due to the economic recession, is not living a great success both in Europe and Italy, with Portugal being the only exception. In the Italian country this is even more reasonable due to the great presence of footwear specialists that were unable till now to shift their offers in favour of the consumers. Thus, they foster even more a growing path for the fast fashion companies and the private labels *Exhibit 14*. However, in Italy people generally won't compromise quality over price and thus, it is not a surprise if Italian companies show the highest brand shares.

II. TYPE OF PRODUCTS: SEGMENTS

There are four main segments within the footwear market:

1. By End User (Women, Men and Children)
2. Type of footwear (Outdoor, Indoor, Sport, Safety)
3. Price (Luxury, Premium, Medium and Lower segments)
4. Material used (Leather, Textile, Plastic/Rubber, Others)

Focusing on the Italian and Portuguese market segmentation by end user is observable that for both the two countries the women's segment is dominating the market and recording the best performance. In Italy, the women's category sales counted for the 52% or overall volume sales and 57% value sales in footwear in 2014. During 2015, women's footwear value declined by 2% while volume sales increased by 1%. This is due to the steadily growing influence of low-cost retailers and fast fashion brand category and the average unit price that declined by 3% to 47€ in 2015 (Euromonitor International, 2016). Indeed, women in Italy are still strongly focused on fashion and still like to buy fashionable footwear like "sport-luxe" high-heeled trainers and heels with wide straps. But, since they prefer buying fewer pairs of shoes, they are fostering the purchase of higher quality footwear that last longer and mainly during promotional periods in stores or on online platforms offering better price discounts. Concerning Portugal, here the women's category showed the strongest performance in 2015

achieving a 2% growth and reaching sales of €632 million. Portuguese women like to be prepared for all the dressing occasions and consequently high heels for elegant occasions and flat shoes for casual situations remained fashionable but as the Italian women, their trend is to wait for promotion periods before acquiring a product at lower price levels. To summing up, the category's tendency is to prefer high quality generally premium price shoes, but to wait for promotions in order to purchase at lower price (APICAPPS, s.d.).

Differently from the women's category, the men's footwear in Italy was the worst performing in 2014 and in 2015 registered a decline of 5% in the current value and of 2% in volume sales. Generally, men are more likely to economize compare to women but this adverse performance can be explained as well with the growing influence of low-cost retailers and fast fashion brands as well as with men shifting preferences towards trainers and casual shoes that are definitively more affordable options. Also it has to be said that differently from women, more likely to follow the latest trends, Italian men are increasingly focusing on super premium footwear since they expect wearing them for several years. In Portugal, even though men are getting more interested in fashion, footwear specialist always face difficulties in male collections. Men prefer the comfort to the design and the popularity of sport footwear has increased in the country in general.

Both in Italy and Portugal the children's' footwear category also has experienced a below-average performance and it is going to stagnate. Indeed, Italian and Portuguese couples tend to postpone marriage and creating a family to achieve first their professional ambition and gaining a financial stability. A forecast decline in birth rate would then be the consequence of a category drop in the following years. In Italy, the number of children aged up to three years old fell by 3% in 2015 and there is a preference for high-quality footwear that lasts longer and requires less frequent purchases. While in Portugal the key word is "comfort" and consequently parents prefer buying sport footwear definitively more practical and comfortable

than other types of footwear. *Exhibit 15.*

In light of these information it is not a surprise looking at the actors in the footwear market both for Italy and Portugal and see names like Nike, Adidas and Puma being with the highest brand ad company value share. Differently from Portugal, Italy still has important and successful companies among the footwear market both in the premium and luxury field: Tod's, Prada, and Salvatore Ferragamo but also Geox, Bata and Valleverde. *Exhibit 16.* Moreover, if private labels in Portugal have had always a role in the footwear market, in Italy they are starting to play an important part only now. Indeed, their influence in terms of company and brand value share slightly increased over the years and it is destined to increase even more in the footwear future scenario. Even in terms of distribution there are strong differences between the two countries. As we said, in the Portuguese footwear market private labels were already present somehow and consequently Hypermarkets and Supermarkets distribution channels value is higher compared to the Italian one. Another important difference is in the sport good stores really strong in Portugal but still playing a small part in the Italian market. *Exhibit 17.*

GEOX

I. HISTORY

The name Geox itself is a mixture of the Greek word "Geo" (earth) and "x" a letter-element symbolizing technology. Mario Moretti Polegato founded the company nearly 25 years ago, and as often happens, the innovative idea behind the company born fortuitously.

Mr Polegato comes from long family generations of wine producers. After having finished the first year of winery school, his father asked him to go to the United States (Reno, Nevada) to participate to a wine fair so as to promote their family business. Often, there, he liked to walk in the Nevada desert but the weather was hot and the shoes did not make easy the

transpiration so, with the help of a Swiss-pocketknife, he created a hole in the soles of his running shoes. His feet immediately felt cooler and he understood that the way shoes were made needed to be re-invented (Young, 2014).

“I wanted shoes to be breathable and waterproof at the same time.” (Young, 2014)

Back to Italy, he tried to solve the problem of how to design shoes that both kept out water and ventilated air and, after having spent 3 years studying, experimenting and doing research and development, he introduced a special insole inside the shoe sole that he called membrane (Camuffo, Furlan, Romano, & Vinelli, 2005). That special innovation creates the conditions to have a breathable rubber sole. Mr Polegato after having patented it, knocked out at the door of the biggest footwear companies in Europe and in the United State trying to propose his technology to them but nobody believed him.

“I spent three years researching my patent, and I offered it to all the big shoe company, but nobody believed in me. But I believed very strongly in the project. The idea was so simple, so easy to explain” (Young, 2014)

In the end, starting with five people coming from important but different firms in the district, in collaboration with ENEA³, the University of Padua, the Italian National Centre of Research (CNR) in Rome (Sciascia, Geox, 2008) and aged 45, Mr Polegato founded his own footwear business: Geox (Young, 2014) and developed and patented the first breathing sole.

The difficulties were not missing both given the mature, global and highly competitive industry as footwear was and also because Mr Polegato started had no idea of the potential market and no sample of consumers on which to test the prototypes. So, Moretti Polegato decided to distribute shoes free to nursery schools (approximately 5000 children between the ages of 3 and 6 years). The choice was not a random one given that children wear their shoes out more quickly, thus allowing the technicians to get faster feedback; after one year of tests

³ Italian National Agency for New Technologies, Energy and Sustainable Economic Development

the development of the first range of shoes for children started (Sciascia, Geox, 2008). Two years after the company decided to enter as well in the men and women categories. And was a success thanks to the trade-off between comfort (waterproof rubber sole) and hygiene (breathing net system) the company was able to resolve.

Now, after many years from its beginning and after Mr Polegato applied his patent in 100 countries straight away, 30 thousand employees work for Geox, the company developed around 1.205 products (footwear and apparel) and it is present in 105 countries in the world.

“You have to protect your ideas. After 17 years in business, our product is still unique, because I protected it with a patent” (Young, 2014)

Today, Geox is a leading brand in international lifestyle footwear market. The success of Geox is due to the constant focus on the application of innovative solutions and technologies on the product that guarantee both waterproof-ability and breathability . The firm’s technology is protected by over 60 different patents, registered in Italy and extended internationally (Nebula, Amphibiox, Geox Rubber Sole, Net breathing system, Geox Xand and Geox leather sole) *Exhibit 18*. Thus, the company’s continuous investments in research and development and has allowed the company entering in a mature market but as well growing into a competitive and global world, outperforming the industry in terms of profitability and business growth as well as becoming an internationally celebrated case of business innovation (Camuffo, Furlan, Romano, & Vinelli, 2005)

II. COMPETITIVE ADVANTAGE OF THE ENTERPRISE

A resource-based view (Barney , 1991) will be used in order to understand which are the resources seen as key to superior firm performance. Resources and capabilities constitute the main source of superior economic performance and main drivers of the company’s competitive advantage over rivals. Moreover, those enable the firm to gain and sustain competitive advantage, if exhibit VRIO attributes.

Two main questions have to be answered:

- What does Geox have? (Resources)
- What can Geox do well? (Competences)

Resources are firm's productive assets and those can be tangible, intangible and human⁴ (Serra, 2012) and must be heterogeneous⁵ and immobile⁶. Those matched with organizational capabilities⁷ can assure a competitive advantage to the company. *Exhibit 19*.

TANGIBLE RESOURCES, physical or financial are generally easier to identify compared to the intangible ones. Geox tangible resources are:

Financial Liquidity, helping the company to develop new products, to make acquisition, to pay dividends and to reduce debt.

Location: in 1997 Geox's offshored the production to the Slovakian and Romanian factories and then during 2009 outsourced the manufacturing process to third-parties, still keeping the raw material and machinery supply from Italy (to maintain quality standards). Those factories represent the "physical" side of the company while Montebelluna is the "intelligent" or administrative side of the business where all the "core" activities take place.

The distribution is made through multi-brand and mono-brand shops (franchising and DOS⁸) positioned in the most strategic location worldwide. The 1,161 mono-brand shops count for the 59,5% group revenues (Franchising: 16,2% equals to 142.0 million; DOS 43,3% revenues to 378.5 million). While multi-branded stores represent the 41,5% of the group revenues equal to 353.8 million (Geox Group, 2015).

The company have developed along the years 60 total patents and many machineries for the production, and test prototyping (like Static test, Total shoe bubble test, Geox walking

⁴ Tangible can be both physical and financial resources while, intangible, are resources way harder to imitate and generally divided in three subgroups: technology, reputation and culture. Lastly, human resources are represented by skills/know how, three ability to collaborate and communicate and motivation.

⁵ Heterogeneous: resources must differ from one company to another.

⁶ Immobile: resources do not move from one company to another at least in the short-run.

⁷ Capabilities represent the firm's capacity to manage resources. It is "what the firm is able to do".

⁸ Direct Operated Stores

meter...). Also, the machineries' supply comes from Italy.

INTANGIBLE RESOURCES since more difficult to identify and imitate are generally considered more valuable compared to the tangible ones. Those are:

Brand Image, scoring high level of brand awareness in the core markets like Germany, Belgium, Spain, Austria and France (Geox Group, 2016). Absolute leader in Italy, and one of the main players in the European market for the women category. The company scores a top brand equity position in Italy, Germany, France and Spain on women, men and kids categories.

Reputation: Geox was able to solve the trade-off between comfort (waterproof rubber shoes) and hygiene (guaranteed by leather shoe that allows the shoe breathing) and for this began being viewed positively in the market (Sciascia, Geox, 2008)

Technology and innovation, is considered the company's DNA.

Supply chain's flexibility. Indeed, the company has offshored and outsourced most of its production (now the 80%) consequently reducing the initial start-up costs but also enabling the firm remain flexible and invest in value –generating activities (Sciascia, Geox, 2008)

ORGANIZATIONAL RESOURCES are very valuable. After the creation of a factory in Romania Geox created an internal training school set up in Timisoara, alongside the factory. The aim of the school is to train workers, specialized technical workers and foremen in order to create the skills needed to manufacture technologically advanced products in line with the innovation development at the Montebelluna headquarter (Sciascia, Geox, 2008).

If not matched with the company's **CAPABILITIES**, resources alone cannot assure a competitive advantage. So, "*What can Geox do well?*".

R&D: since 1990s when the first technology was patented Geox built its business on continuous innovation, investing copiously in research and development. *Exhibit 20*. Research, the ongoing conception and implementation of innovative solutions are significant

factors in the Group's strategies because product innovation is fundamental to maintain and strengthen the Group's competitive advantage (Geox Group, 2015). R&D is a complex corporate process that ranges from the study of the technical solutions involving breathable and waterproof materials, to concession of new patents and the development of new product lines (Geox Group, 2015). The research and development process can be divided in two stages: (1) the pure research to verify the materials' performance used both in footwear and apparel. The objective is the creation of new patents and the implementation of new solutions to use like special materials to make products that can breathe and at the same time that are waterproof. (2) the applied research in order to create collections passing through the various phases of design, prototyping and modeling (Geox Group, 2015).

Brand Management: Geox is a healthy growing brand showing top scores awareness and brand equity on all core markets. Last years, the brand showed strong distinctive value: from “comfortable” and “the shoe that breathes” but “serious”, “for adults”, “few colours” customer associations to “a brand for all”, “fun”, “classic and cool”. Also, through some CRM practices (loyalty program “Benefeet”⁹) and marketing strategies (like a Digital Centric strategy and Geox Social) the customer base increased from by 2.9 Million in 2015, the customer retention from 22% in 2013 to 35% in 2015 and a constant increase in engaged audience year over year was registered (Social community + 37%, Benefeet subscribers +38%, Geox.com unique visitors + 24% year over year) (Geox Group, 2016) .

Human resources are very strategic for the firm considering the highly importance given to technology and innovation and the globalized market the company wants to serve. Therefore, having qualified people inside the company's factory is fundamental. Intense training at the Geox School Academy¹⁰ aims to teach company's important practices to young students.

⁹ Benefeet it is a CRM program created to help Geox knowing its customers and creates a dialogue with them. Showing to them new initiatives, promotions, seasons preview etc...

¹⁰ The Geox School Academy is divided in two sections: the operation area for young engineers of specialized people in the footwear manufacturing and the retail area for graduate people in economics or management.

Outsourcing: The supply chain's flexibility has allowed Geox to benefit from outsourcing and offshoring in countries where the labor costs are lower. *Exhibit 21*. The coordination among all the process of ideation, production and distribution within the use of the same technology and resources for all the user category creates important efficiency and fosters economies of scale. Moreover, recently the company decided to invest in a manufacturing company in Serbia¹¹ in order to reduce the production lead time for the replenishment of best-selling products in the stores, maximizing the sell-out.

Distribution Management: the retail business model includes mono-brand stores (franchising, e-commerce, concessions/corners and DOS) and multi-brand stores. Stores are generally located in the most important and busiest areas of the cities in order to attract customers and better communicate the brand values.

III. SUSTAINABILITY OF GEOX COMPETITIVE ADVANTAGE

Developing a VRIO analysis is important to understand if and which of the resources and capabilities constitute source of sustainable competitive advantage for the company. According to the model, those must be valuable, rare, imperfectly imitable (costly to imitate) and organized to exploit. *Exhibit 22*. To do so, Geox has to be compared with some of its global competitors in the comfort and casual shoes such as Timberland, Ecco and C&J Clark.

“Are Geox’s resources Valuable, Rare, Costly to imitate and Organized to Exploit?”

Financial Liquidity: it is a valuable resource, given the fact that the company is able to repay its short-term and long-term debt in a highly competitive market as the footwear is. But Geox’s competitors are able to do the same. Consequently, the financial liquidity isn’t rare and this brings Geox to a competitive parity. *Exhibit 23*.

Generally, people selected undergo to a six-months course at the school where mornings are spent in classroom learning theory and afternoons are spent out in the company receiving practical, individual tuition. After this training people can join the Geox workforce (Geox School Academy: formazione per neolaureati in azienda, s.d.).

¹¹ On January 31st, 2016 Geox have opened a new factory in Vranje (South of Serbia). The total investment is €15.8 million, planning to employ 1250 workers and producing 1,250,000 pairs of high quality women fashion footwear. RAS; development agency in Serbia: <http://ras.gov.rs/geox-factory-opened-in-vranje>

Location: Many times Mr Polegato said: *“If we were not here in the district certainly we would not have become who we are”* (Carini, 2008) The district of Montebelluna is where all the most sophisticated process of the production and where all the highly competences are. But as Geox, other companies are in the same district like Lotto (mostly know for soccer shoes). Thus, this resource is considered valuable but can't be considered rare. The same worth for **distribution**. Although the large retail distribution with mono and multi-brand shops, this tangible resource cannot be considered rare since it is adopted by Geox competitors as well.

Differently, Geox's **machineries** are valuable and rare resource, since manufacturing machinery are bought from Wortec S.r.l., (an Italian firm) in order to maintain the quality standards. But imitation may be an issue and consequently relying only on the machinery would represent a temporary competitive advantage. Wortec S.r.l. not only provides machineries but as well **raw materials** and for that the company lately was awarded with the **TUV SUD footwear certification**¹² that guarantees the excellence of the material used which are safe not only for the environment but as well for people and continuing broadcasting of high quality to final consumer. Certifications of excellence are rare and costly to imitate resources. Moreover, having an Italian company as major supplier means also the maintenance of the “Made in Italy” that is also consider symbol of excellence in the world.

The company's continuous focus on **technology and innovation** is a valuable resource because it allows product differentiation and quality. Most of the direct competitors of Geox tends to be specialists and innovate the product in terms of design, style and materials mainly focusing on the upper of the shoes (Camuffo, Furlan, Romano, & Vinelli, 2005). While differently, Geox's product innovation is focusing more on the development of new technology for the shoe outsole rather than the upper style and design allowing the firm to

¹² The footwear certification states that Geox has completed a comprehensive testing and factory inspection program to safeguard against hazardous chemicals. TUV SUD is one of the world's leading technical service providers of testing, product certification, auditing, training, knowledge services and system certification.

offer a unique product (The “shoe that breathes”). Through **patents** and **intellectual properties** are a valuable and rare resources since represent a signature of technology, style, uniqueness and relentless innovation through which the company protects itself. Unfortunately, this “protections” guarantee only a temporary competitive advantage since due to their expiration date can be imitate. However, technology represents the company’s DNA and thus fully incarnate the VRIO features. CSR’s activities can be seen as an additional technological development through the creation of innovative production processes that are sustainable and environmental friendly. Geox sees these activities¹³ as a need for the long-term development of the company itself. But technology is not everything. In fact, today having a good **brand image and company’s reputation** is fundamental to companies: brand image is how consumers perceive the company while firms with a strong positive reputation attract better people (Eccles, Newquist, & Schatz, 2007). Geox’s brand is strong than ever scoring high brand awareness and equity in the core markets among all consumer targets. Comfort, quality and well enduring are purchase key. For those reasons, brand image and company’s reputation have to be considered valuable, rare, costly to imitate and organized to create value. And both increase corporate worth and provide sustainable competitive advantage. *Exhibit 24.*

Supply chain flexibility is also another important aspect because entail a labors cost’s decrease and generally requires lot of coordination and all the firm’s management processes and systems were organized to foster its functionality. Indeed, has helped the company saving labor and raw materials costs and have tax and legal advantages thus, it is a valuable resource but not rare since many other companies, especially in the footwear industry did and are doing the same. ECCO (a Danish company), produces its own shoes in its five fabrics: Portugal,

¹³ The “Geox code of conduct” that all the firm manufacturing partners have to sign; The “social greenhouse” to give people with intellectual disabilities finding an opportunity for labor inclusion; “Geox for Valemour competition” to stimulate new job inclusion projects. Sustainability along with technology development became Geox behavior and mission.

Slovakia, Thailand, Indonesia and China (ECCO, 2015). This requires a certain flexibility.

People and their skills/know-how represent a highly valuable resource and competence for the company. Indeed, having specialized, with “hard skills” and knowledge people is extremely valuable and a rare resource for the company. In addition, the creation of schools’ academy contributes even more customizing people’s training to companies’ needs. The problem relies mostly in the employee turnover rate. Indeed, people may decide to change and move to another company thus, the probability of “imitation” is not so far away. Even though people are a fundamental resource for companies those represent a temporary competitive advantage more than a fully sustainable one.

Corporate culture¹⁴ can be defined first by the company mission and then by a code of conduct or statement of company’s values. The culture of a company is an extremely valuable resource, rare and hardly to imitate. As well, it is organized to create value since it is at the basement of company’s business. Thus, company culture represents a source of sustainable competitive advantage.

To conclude, by the use of the VRIO framework was able to understand which and how certain resources and capabilities were key for company success and which ones can actually help the company sustaining this advantage. In this scenario resources that are bringing a sustainable competitive advantage are technology & innovation that the company considers as its DNA, Brand Image and Reputation as being a quality and reliable brand and of course the company’s culture based on the continuous product development for improving people’s life. It is not a mystery that in such a huge and competitive industry, the more the company is able to differentiate itself, the more it is valuable and can meet the expectation of its customers.

¹⁴ A company system of “beliefs, expectations and meaning that influence and guide the thinking and behavior of the members of that organization” (Hartman, 2014)

IV. EXPANSION STRATEGY

Nowadays “thinking global” is fundamental for companies active in the R&D sector (Anzivino & Lazzaro). In order to maintain and develop their competitive advantage, companies need to seek for new markets where to offer their services/products, new partners with whom to cooperate, to develop new technological development and new supply markets where to seek resources at competitive costs. According to (Anzivino & Lazzaro) internationalization strategies may be classified like in table below.

RESOURCE SEEKING Defensive delocalization strategy through the transfer of manufacturing operations to low-cost countries in order to benefit of lower cost of key resources (e.g. <u>labor cost</u>)	MARKET SEEKING Offensive delocalization strategy with the primary objective of seeking new markets internationally to sell products/services.
TARIFF JUMPING To benefit of tax advantages or access to particular forms of business facilitations	STRATEGIC ASSET SEEKING Defensive delocalization strategy like the search for proximity to key clients to better support them.

Both the delocalization of production and the company’s commercial presence have to be considered part of Geox’s International Business Model. *Exhibit 25*. At the beginning of the company’s life, the major international strategy was of “resource seeking” with the company building the Romanian and Slovakian productive subsidiaries in 1997, where all the manufacturing process of phases and operations where delocalized. During 2009, the company understood that outsourcing¹⁵ all the production would improve flexibility and time to market as well as reducing the costs. These “third-parties” *technical production companies* have Notech Kft (Hungary) at the head of all the production activities in Europe engaging technical employees for coordinate the manufacturing activities and to check the quality of

¹⁵ Geox outsources the production to third-parties chosen according their technical skills, quality standards and ability to handle the production volumes. Only if the company manages close relationships between suppliers and headquarters, in terms of purchasing raw materials, accessories and plant equipment with technical specifications managed centrally, the entire business would work.

the finished products of the factories¹⁶ (Dringoli, 2012). Raw materials and manufacturing machinery are bought from Wortec S.r.l., an Italian firm in order to maintain the quality standards. When in 2000, the company started penetrating the international market its international strategy became offensive (“Market seeking”) and nowadays, different controlled companies, owned by Geox S.p.A. coordinate the selling activities in different countries. Specifically, the group is split into three macro-groups: *EU commercial companies* managing the company’s DOS shops, providing customer service and coordinating the sales network in the European continent; *EU trading companies* responsible for developing and overseeing their area of interest to increase the Group presence and improve customer service; *Non – EU trading companies* monitoring and developing the business in the markets of competence through licensing or distribution agreements. *Exhibit 26.*

Thanks to wide and tailored distribution network, which includes multi – brand selling points (around 10.000), directly owned and franchising stores, Geox has built a powerful leadership presence across the globe. The group currently owns 1,161 stores (of which 476 were DOS and 685 franchising in 2015), in more than 100 countries across the globe. The franchising model adopted by the Group is simple, safe and rewarding *Exhibit 27.* The company provides an evolving product offer, new retail layouts and complete commercial assistance in the daily store operations. Geox’s franchising stores are generally 100-130 m² in size and positioned in either shopping centres or in primary high-street retail destinations in towns and cities with populations greater than 70,000.

V. GEOX IN PORTUGAL

Although many strains, especially concerning the country’s economic situation, Geox was able to position itself strongly in the Portuguese market. The company is market leader for the kids’ category, and has registered high market shares in women and men’s categories

¹⁶ Technical Development in Romania and Technical Development in Slovakia

although is very difficult especially in the women category due to their attitude of being easily and fiercely influenced by trend cycles. Main reasons of this success comes from the Portuguese' perception of Geox as a quality brand with an affordable pricing and as one of the main preferred retail brand, especially on kids where the company have totally gained the consumers' trust and loyalty (kid is a very sensitive market for quality shoes). But as well from the ability of the group to have built a high territorial coverage along the years based on premium location compare to competition.

The company is nowadays present within 22 Geox's Shop (franchising based and managed by a multi-unit' franchisee) all in the best Mall or premium streets, and on multi-branded it has around 360 clients. The success and the healthy and solid growth of the firm's distribution in the country is mainly due to the detailed and qualified selection on both the channels. In 2013, Geox's sales in Portugal stood at 10.3 million euros and where estimated to growth further for 2014 to reach 12 million (Dírcia, 2014). These data represent a success for the company considering the differences between Portugal and other markets like Italy and Spain. Indeed, and first of all, differently from those, the Portuguese market is very small (It is mainly Lisbon and the Northern coastal region around Oporto, while other areas have no commercial interest), price sensitiveness is very high and the retail market is mainly concentrated in Malls, while in Italy and partially in Spain the down town still offer important traffic flows and turnover per square meter. Even within the e-commerce Portugal is very poor and consequently the communication tools used by Geox are very traditional (magazines, TV...). However, the firm perceive Portugal as an interesting country where investing in and one of the main countries where the group is selling well, since the group revenues in Portugal increased by 10%, (Ruta Silva, 2015). In light of this and taking the effectively accomplishment of 12 million revenues of 2014 as truth, this would mean that the group reached around 13,2 million in 2015. The reason for this performance is that the country has

space to grow, both within the e-commerce (because consumers will slowly move into the e-commerce experience, especially the youngest generation) and also in terms of market share for the women and men categories, but as well because the footwear industry is generally performing well bringing the CEO to invest more in the country. From the retail side, what the company is planning to establish in the future are two flagship stores *Exhibit 28*. Those are core stores for brand name retailers and also different from other stores by their scale and design, their location, set-up and operating costs. They also have a distinct and specific function – “to showcase the brand and to support and bolster the whole network – within that and all other foreign markets” (Moore, Doherty, & Doyle, 2008). Flagship stores are typically five to eight times larger than the typical retail store footprint and they extend, on average, to four sales floors, as opposed to the norm of no more than two floors (Moore, Doherty, & Doyle, 2008). It has also to be said that flagship stores require a huge investment, since the costs associated to them are considerable. Indeed, the majority of the flagship stores are not built with the purpose of making profits; whereas standard shops in a chain make an average of positive contribution of 6%, for a flagship store there is a net loss of 9% (Webb, 2009). As well as higher property costs as a percentage of flagship store sales, staffing costs and depreciation of expensive fitting and equipment are also greater (Webb, 2009). If taken into account the primarily locations where those have to be positioned, there would be the need refurnish them more frequently than regular branches, adding significantly to costs (Webb, 2009). Thus, the impact in terms of costs for the company would be substantial but, from the other side, Geox would reinforce even more the brand image in the country and give a clear picture of the brand lifestyle and culture as well as have a high impact economically. But, *“Would it be the right choice for the company taking into account, first, that flagship stores are located in the most important cities in the world (like Milan, Paris, London...) and, secondly, that Portugal is not a “core” market for Geox?”*

CONCLUSION

The purpose of this case study was to answer two main questions: “Why going to Portugal?” and “Why the franchising model?”. Unfortunately, the answers would have been more detailed if the company would have allowed the access to some data like the margins that franchising stores are able to create and to the weight of the country in percentage compared to other countries considered core markets for the Geox.

I. WHY THE FRANCHISING MODEL?

International companies like Geox are used to base their business on the ability to perform multichannel: Multi-branded shops – Retail – E-commerce – Off-price.

Thus, for Geox, was normal to enter the Portuguese market with the franchising model even more considering the low market potential of Portugal compared to other countries. Entering with DOS stores in this market means having low sales volume and low brand image’s return. The franchising model in this sense allows the company to strengthen the brand keeping the brand equity at a high level through a partner that, on his side, has the market know-how that is indispensable to perform positively (GLOCAL EFFECT = A mix of Geox + the local partners). Furthermore, the company won’t use its own financial resources to expand in the country but would be the franchisees to do the up-front investment. *Exhibit 29.*

How much margins the company is able to create with the franchising stores? Knowing these would have been useful to better understand the performance of the stores in the country but, unfortunately, the company do not give these kind of information. The only thing known is that Portugal do not have an important weight for the company in terms of annual percentage sales volume that indeed, is only around 0,9% -1% of the total group. This is naturally due to the geographical condition of the country compared to the main and “core” markets for Geox. Compared to the four “core” countries that are Italy, France, Spain and Germany, the annual turnover of Portugal would move between 4 % and 12%.

II. WHY GOING TO PORTUGAL?

Although Portugal do not represent a core market for Geox, more or less 10 years ago the firm decided to enter in the country. Portugal is considered an aggregate of Spain and together the two countries are called “Iberia” and firms’ operators, agents and clients are often working in this broad area. Generally, companies like Geox, once entered in the Spanish market, even without a clear planning and because of the similarities of the two countries in terms of geography and consumers’ need and preferences, found easy to embrace also Portugal in their expansion strategy. More than a strategic process, it is considered a NATURAL PROCESS. However, even though the market potential of the country is not so representative for Geox, if compared with markets like Germany, France, Italy and also Spain, Portugal is considered a good area where investing in, considering also that Geox is currently market leader in the kids’ category and among the most important players for the women and men’s categories and the Portuguese footwear market is performing well and thus there is space where to grow.

RECOMMENDATIONS

Giving recommendations first, regarding having or not a master franchise and second, about the opening of a flagship store are needed.

In light of what have been said till now, about the franchising model and knowing that in the country all the 22 retail store of Geox are owned by the same person that is not a master franchise but a multi – units’ franchisee, “*Would it make sense to Geox now to rely on a master franchise?*”. Master franchising is a form of franchisor-franchisee relationship in which the master franchisee essentially becomes a mini-franchisor for a specified territory. In exchange, the master franchisee receives a large percentage of the initial franchise fee and ongoing royalties, typically 50% (Goldberg, s.d.). The benefit for the franchisor include a rapid market penetration and brand dominance, since the master franchisee is motivated to

sell as much as possible and to select the best candidates to train and support and consequently getting paid for it. Said that, at this stage Geox don't require the knowledge nor skills of a master franchisee, first of all because the firm is already well integrated in the Portuguese market (leader in the kids' category) and also because it is costly and, at this stage, the firm do not need important market penetration and brand dominance strategies.

Moving on, "*Should Geox open a flagship store in Portugal?*". This is probably the main recommendation to the company. Indeed, it is true that this might give Geox many positive advantages, but there are also some drawbacks - *Exhibit 30*. If a look at the current results and forecasts of Portugal in the footwear industry and at the small information that were extrapolated about the Geox performance in the Portuguese market is given, the answer to this question would be yes, the company should open a flagship store. But, it has also to be said that this would require a huge investment and that flagship stores are generally located in important cities like London, Milan, Paris, New York. Moreover, the company do not see Portugal as a "CORE" market, but more an "extension" of the Spanish market and the country does not have such a high market potential. Also, there are many critical success factors to take into account regarding the flagship store's sustainability, such as the "wow" factor, providing a superior customer service, having high operating standards, etc... (Webb, 2009) - *Exhibit 31*- and apart from the financial risk there is also a brand image risk. Indeed, it is not guaranteed that the opening of a flagship store would have such a high brand impact, actually it can also happen, that since the store would be so different from the others of the chain it won't be recognized by the consumers and would only have the effect of getting them confused.

Thus, in light of these second sets of considerations, in addition with the fact that currently Portugal represent only between the 0.9% and 1% of the annual sales volume of the Geox Group, the opening of a flagship store won't be recommended.

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